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C O N F I D E N T I A L SECTION 01 OF 02 KATHMANDU 001257

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SUBJECT: NEPAL: AMBASSADOR'S MEETING WITH NEW FINANCE  
MINISTER

REF: KATHMANDU 0902

Classified By: AMB. MICHAEL E. MALINOWSKI. REASON: 1.5 (B,D)

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SUMMARY  
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1. (C) In a June 29 meeting with the Ambassador, Finance Minister Dr. Prakash Chandra Lohani said that the Government of Nepal (GON) is preparing for another round of negotiations with the Maoists and making some headway in persuading political parties to join the new government. He said that while all parties may accept the need for social and political change in Nepal, questions remain about the exact nature of the change needed and how to manage it. He welcomed USG proposals to provide technical assistance to the GON on WTO accession and undertook to look into the contractual dispute between a U.S. investor and the Nepal Electricity Authority. End summary.

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PEACE TALKS  
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2. (U) Accompanied by DCM Robert Boggs and newly arrived USAID Mission Director Donald Clark, on June 29 the Ambassador called on newly appointed Finance Minister Dr. Prakash Chandra Lohani. Lohani, who received his MBA from Indiana University and his PhD. from UCLA, has also been named to head the Government of Nepal (GON) team to negotiate with the Maoists.

3. (C) According to Lohani, the two-man GON team has already held two quiet, informal meetings with Maoist representatives outside the glare of the media. He remarked that the Maoists recently have been "fairly aggressive" in their claims that the GON is backtracking on commitments--for example, the 5-km restriction for the Army (Ref A)--allegedly made by the former GON team during the two previous rounds of dialogue. Since there was no written record kept of either round, reconstructing what was said has been difficult, Lohani said. The new team has met with former GON negotiators Ramesh Nath Pandey and Narayan Singh Pun, however, and has concluded that the GON did not agree to the 5-km restriction.

4. (C) Before embarking on a third round of dialogue, the GON is in the process of working out basic, non-negotiable long-term goals, Lohani said, which thus far include the integrity of the nation, progressive social change, and "saving the nation from plunging into further chaos." In their discussions with the Maoists, the GON team has proposed putting aside the controversy about the 5-km restriction for now, to which the Maoists provisionally agreed, Lohani reported. Maoist distrust of the GON persists, however, Lohani observed, adding that the insurgents fear that "we're trying to outwit them." At the same time, the security forces worry that the Maoists may be planning to break off negotiations with a series of devastating surprise attacks as they did in November 2001. Despite this mutual mistrust, Lohani described himself as "cautiously optimistic" about the peace process, but added that he remains worried by Maoist activism--specifically, continued extortion, conscription and training--during the ceasefire.

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GON SEEKS PARTY PARTICIPATION FROM  
"INSTITUTIONS," NOT "INDIVIDUALS"  
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5. (C) Lohani said the two-man GON negotiating team had been kept small to allow room for representatives from other political parties, should they decide to join the government. The GON wants all the political parties to work together in order to make elections possible, he asserted. While second-rank leaders seem more flexible about compromise than

their leadership, the GON has given up the idea of trying to "break people out" of party ranks to join the Cabinet, he said. The GON now realizes that persuading individuals, rather than the institutions themselves, to join a Cabinet is neither productive nor desirable.

16. (C) The GON is gradually making progress toward this goal, Lohani reported. The parties are beginning to realize that their street protests are not working and that only the Maoists are benefiting from the poisonous political atmosphere. "Our arguments are having an effect," he asserted. The incestuous nature of Nepali domestic politics helps in this regard, he observed. Since "everyone is related to everyone else" and Kathmandu is so small, rival politicians still have ample opportunity to meet socially and discuss otherwise sensitive matters amicably.

17. (C) He indicated that there is a certain amount of hypocrisy among the parties as well. Even though politicians "talk a good game" about democratic ideals, as soon as they get into power they immediately abandon this idealism and insist on conformity with the party line. Nepali political parties use democracy more as a campaign slogan than as an operating principle, he charged. While all parties accept the idea that the Nepali political system is "too centralized and feudal," there remains substantial debate about how best to reform it. Although the current system is unsatisfactory, the Westminster system is "too formal for us." Most mainstream politicians seem to agree tht basic change to the political system is needed, but disagree about the degree of change needed, as well as how to manage and channel such reform, he concluded.

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TRADE AND INVESTMENT  
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18. (SBU) The Ambassador underscored USG support for Nepal's attempts to accede to WTO, but noted that substantial progress still must be made before accession is likely. The USG has offered the GON technical assistance on both customs valuation and sanitary and phytosanitary measures but has yet to receive the written requests needed before such aid can be initiated. Lohani promised to ensure that the necessary request letters are sent soon. The Ambassador also asked for Lohani's assistance in helping to resolve the outstanding contractual dispute between the Nepal Electricity Authority (NEA) and the Bhote Koshi Power Company, in which the U.S. company Panda holds a majority share. (Note: As Finance Minister, Lohani sits on the NEA Board of Directors. End note.) Some progress toward resolving the dispute amicably had been made at the behest of former Water Resources Minister Deepak Gyawali, the Ambassador said, but since the June 4 Cabinet change the efforts seem to have stalled. Lohani undertook to give his attention to the matter. Lohani also promised to waive the customs duty on ten electric vehicles produced by REVA, an Indian/US joint venture.

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COMMENT  
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19. (C) Lohani is a thoughtful and engaging interlocutor who is friendly toward the U.S. We welcome his observation that attempting to lure away individual second-tier leaders from the recalcitrant parties could backfire. Sources in contact with the Maoists report their suspicion that the new government and negotiating team will attempt to revisit concessions already made--or purportedly made--by the previous GON team. Whether or not GON negotiators made the 5-km concession as the Maoists claim, we believe that controversial issue should be walked back.

MALINOWSKI